For the Employment Pages

LUMP SUMS AND COMPENSATION PAYMENTS

The two Working Sheets in this Help Sheet show you how to deal with lump sums connected with your job (that is, relatively large amounts, paid to you at one time, usually in cash). They show you what figures to enter in boxes 1.24 to 1.30 in the Employment Pages of your Tax Return.

This Help Sheet covers

- payments (excluding pensions) and benefits given to you
  - when your job ends
  - after your job ended, as a result of an agreement when it ended
  - on any change in the terms of your job
  - on or after your retirement or death – but only from an unapproved retirement benefits scheme (that is, one set up by your employer to provide retirement or death benefits. It does not include a scheme approved by us)
- contributions by your employer to an unapproved retirement benefits scheme.

Different rules apply to each of these, and the Working Sheets guide you through them. If you need help, ask your Inland Revenue office or tax adviser.

Working Sheet 1

Step 1 **Enter in box A the total lump sums, benefits, contributions and so on, due to you in the year to 5 April 2001, before any Pay As You Earn (PAYE) tax was taken off them by your employer.**

You will need to give a cash value to any benefits that were not in cash. The section of our booklet 480 *Expenses and Benefits - A Tax Guide,* available from the Orderline, which deals with 'Non-cash benefits in connection with terminations of employment' (that is, the ending of a job), will help you on this. Leave out:

- non-cash benefits you received while you were still an employee – they go in boxes 1.12 to 1.23 of your Employment Pages
- sums from retirement benefit schemes that are
  - approved by us
  - statutory (that is, official) schemes (for example, Local Government Pension Schemes and the Principal Civil Service Pension Scheme)
  - foreign government schemes
- payments for any counselling services you received when leaving your job, if they were exempt from (that is, free of) tax. If you are not sure about this, ask your Inland Revenue office or tax adviser
- legal costs paid direct to your solicitor by your employer as part of a termination settlement which deals only with compensation for the loss of your job
- (for members of the armed forces only) any terminal grant, gratuity or other lump sum paid to you under Royal Warrant, Queen's Order, or Order in Council.

A	£

Step 2 **Different rules apply to different parts of the figure in box A. Divide it into two so that you can use the different rules for each part. These are a 'taxable lump sums' part (box B) and a 'benefits scheme' part (box C), followed by a calculation based on them (box D).**

1. Add together and enter in **box B** any part of the sum in box A which is:

- salary (for example, due to you when your job ended and included in the lump sum)
- holiday pay
- a payment in lieu of notice, unless
  - you were not entitled to a payment in your terms of employment, **and**
  - there was no custom of your employer making such payments.
- a bonus (that is, any extra payment for services you gave in your job)
- any other sum or benefit from your employer because you were entitled to it in your contract. However, do not include redundancy payments and benefits (that is, payments made to you as compensation for the loss of your job because your employer needed to reduce the workforce), provided that the terms of the contract or scheme refer specifically to redundancy

Working Sheet 1- continued

- compensation for changes in the terms and conditions of your job (such as the removal of a benefit). If the changes are very wide-ranging, box D may apply (your Inland Revenue office can help you on this)
- expected because of your service as an employee (for example, your employer may always make this payment when someone leaves, so it is expected)
- for a 'restrictive covenant' (that is, an undertaking you give which restricts your conduct, such as agreeing not to compete with your former employer).

B £

Copy box B to box 1.27 on Page E2.

2. Enter in **box C** the total of:

- contributions made by your employer to an unapproved retirement benefits scheme
- amounts you have received from an unapproved retirement benefits scheme (but not pensions, which go in box 11.10 in your Tax Return). These amounts may be free of tax if you are not a member of an approved scheme as well. Ask your Inland Revenue office about Statement of Practice 13/91: *Ex-gratia awards made on termination of an office or employment by retirement or death* (included in booklet *IR131: Statements of Practice*, available from the Orderline, or our website).

C £

3 Enter in **box D**, box A *minus* box B *minus* box C; that is, box D = A - B - C. (As a quick check make sure boxes D + C + B = box A.)

D £

Step 3 **Now you can work out what deductions may be available. Figures in boxes E to H, and J, below, reduce taxable amounts in boxes C or D above.**

Enter in **box E** any amount which you have already included in box D which was paid to you for a disability. A 'disability' is a physical or mental impairment, and for this exemption to apply:

- your employer must have been aware of your disability
- the amount must be paid only for your disability (and not, for example, for your redundancy)
- your disability must have caused the end of, or change to, the job for which the sum in box D is paid to you.

The figure in box E must not be greater than any amount for disability that you included in box D. If box E is the same as box D, go to box I and leave boxes F to H blank.

E £

Enter in **box F** any exemption for foreign service that you wish to claim for any figure included in box D. You cannot claim exemption here for any amount you have included elsewhere. Working Sheet 2 will show you what figure to use. If the figure in box F is the same as in box D, miss out boxes G and H and go to box I now.

F £

From now on, you might find it useful to have the Employment Pages of your Tax Return to hand, so that you can copy figures into it as you go.

Box G deals with exemption from tax for amounts which you have included in box D. Follow the rules below to work out what figure to enter in box G.

- The maximum exemption for each job is £30,000, **but** the sum in box G must not be greater than the figure in box D. For example, if you entered £12,000 in box D as a redundancy payment, the exemption in box G must also be £12,000, **not** £30,000.
- You must treat jobs with the same employer, or with employers under the same or common control, as one job. For example, redundancy payments from two companies in one group qualify for only one exemption of up to £30,000.

Working Sheet 1- continued

- The exemption is available for all payments or benefits from the ending of the same job (as defined in the previous bullet). If the termination settlement gives you payments or benefits for more than one year, you can carry forward any unused exemption to the next year. For example, if you used £20,000 of the exemption last year, you can bring forward the remaining £10,000 to use against amounts you receive from the same settlement this year. To continue the example, if this year's payments or benefits (included in box D) are £4,000, you would enter £4,000 in box G and carry forward the unused balance of £6,000 (that is, £30,000 *minus* £20,000 *minus* £4,000 = £6,000) to use against any payments or benefits from the same settlement that you receive next year. (Make a note of any balance carried forward, for filling in next year's Return.)
- For jobs ended in the two years to 5 April 1998, there were special arrangements for taxing payments and benefits received after those jobs ended. If you chose those arrangements, you may have used part of the exemption for that job in those years. If so, you must take off the sum used from £30,000 before entering a figure in box G.

G £

Copy box G to box 1.24 on Page E2.

Enter in **box H** any foreign service reduction you are claiming. Use Working Sheet 2 to work out the figure. You should enter here only lump sums included in box D from jobs with foreign service, not any included in boxes B or C.

H £

boxes E + F + G + H

I £

Box J deals with exemptions available only for sums you have entered in box C which:

- your employer paid you because of an accident while you were at work, **or**
- were funded at some time by contributions from your employer, on which you paid tax for the year they were made (we may ask for evidence of this), **or**
- arose from your own contributions, **or**
- came from an overseas scheme. This exemption is only available if further tests are met: ask your Inland Revenue office about Extra-Statutory Concession A10 *Lump sums paid under overseas pension schemes* (included in booklet IR1: *Extra-Statutory Concessions*, available from the Orderline or see our website).

J £

Copy box J to box 1.26 on Page E2.

Step 4 **Work out the taxable figures. Transfer these to your Employment Pages.**

box C *minus* box J

K £

Copy box K to box 1.28 on Page E2.

box D *minus* box I

L £

Copy box L to box 1.29 on Page E2.

boxes E + F + H

M £

Copy box M to box 1.25 on Page E2.

Note: where tax has been deducted by your employer from lump sums, you may have already included that tax in the figure in box 1.11. If you have, make no entry in box 1.30. Otherwise, enter the amount of the tax in box 1.30.

Working Sheet 2: foreign service

Ignore this Working Sheet unless a lump sum you received came from a job that involved 'foreign service', which means that, during that job, you:

- were 'not resident and ordinarily resident' in the UK, **or**
- qualified for Foreign Earnings Deduction (abolished - except for seafarers - from 6 April 1998).

If you need more advice, ask your Inland Revenue office or tax adviser; or ask the Orderline for booklet IR20: *Residence and non-residence.*

First, fill in boxes A to E in Working Sheet 1.

You get **full foreign service exemption** (**box F** of Working Sheet 1) if:

- 75% of your service was foreign service, **or**
- the last 10 years were foreign service and the total service was more than 10 years, **or**
- the total service was more than 20 years and 50% was foreign service (including any 10 of the last 20 years).

If this applies to you:

- ignore the rest of this Working Sheet
- **return to and complete Working Sheet 1.** Enter in box F there the sum included in box D which was from the job in which you had foreign service. However, please note that the exemption in box G (and in box H) can only apply if this foreign service exemption has *not* used up the whole figure in box D.

If full exemption does **not** apply to you, you may still qualify for **foreign service reduction** (**box H** of Working Sheet 1) if you have **some** foreign service.

Enter in **box N** that part of the figure from box D of Working Sheet 1 which was from your foreign service job.

N £

O £ 30,000

box N *minus* box O

P £

Enter your **total** service in the job, in **months**

Q

Enter that part of your total service which was **foreign** service (defined above) **in months**

R

Multiply the figure in box P by the one in box R and divide the result by the figure in box Q

S £

Copy the figure in box S to box H on Working Sheet 1.

Now turn to boxes G (you need to go this far back in order not to miss the £30,000 exemption there) to M to complete Working Sheet 1.

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.